

Pansophia Academy

Financial Report
With Supplemental Information

Year Ended June 30, 2008

Independent Auditors' Report	i – ii
Management's Discussion and Analysis	iii-ix
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets.....	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	3
Reconciliation of the Fund Balances on the Balance Sheet of Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Fiduciary Net Assets	7
Notes to Financial Statements.....	8-15
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	16
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	17
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	18
Schedule of Indebtedness	19-20
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	21-22
Schedule of Findings and Responses	23



Independent Auditors' Report

Board of Directors
Pansophia Academy
Coldwater, Michigan 49036

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pansophia Academy, as of and for the year ended June 30, 2008, which collectively comprise the Pansophia Academy basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pansophia Academy management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

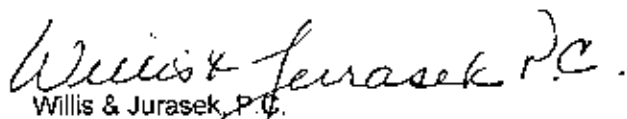
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pansophia Academy as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 2008, on our consideration of the Pansophia Academy internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Directors
Pansophia Academy

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pansophia Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.


Willis & Jurasek, P.C.

October 17, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Pansophia Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The academy's net assets are \$255,543.
- Blended enrollment used for state aid purposes was 186.31 in June 2008.
- The academy maintained its outstanding liabilities.

Overview of the Financial Statements

This annual report consists of three parts -- management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Pansophia Academy Annual Financial Report

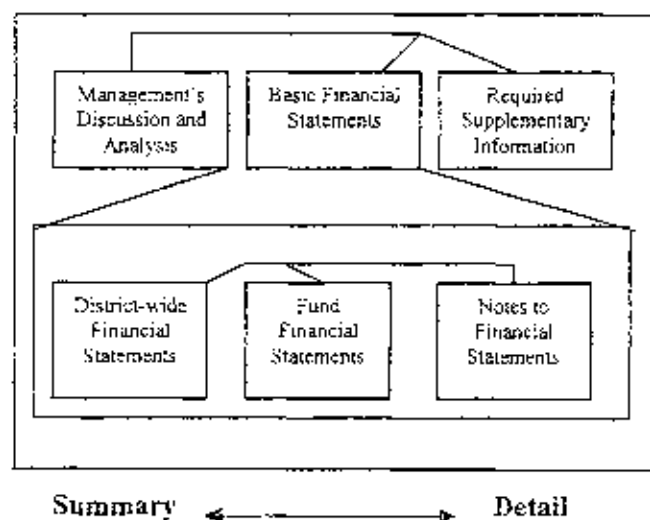


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements	
		Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	<ul style="list-style-type: none"> * Statement of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenues, expenditures and changes in fund balances 	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds -- not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has two kinds of funds:

Governmental fund - Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds -- The academy is the fiduciary for assets that belong to others, such as the student activities funds. The academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the academy cannot use these assets to finance its operations.

Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$255,543 on June 30, 2008. See Figure A – 3.

The total revenues were \$1,611,922. State aid foundation allowance included in revenue from state sources accounts for most of the academy's revenue (83 percent).

The total cost of instruction was \$834,745. The total costs of support services were \$447,281.

The academy's stable financial position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them into line with the academy's revenue.

Academy governmental activities

There was a state aid increase of \$119 per pupil during the 2007-2008 school year. The school board oversaw the academy's financial activities while the administration carefully managed expenses.

Figure A-3 Pansophia Academy		
	2008	2007
Current assets	\$ 601,836	\$ 331,449
Capital assets	2,473,928	2,831,034
Total assets	3,075,764	3,162,483
Current liabilities	190,221	168,043
Noncurrent liabilities	2,630,000	2,705,000
Total liabilities	2,820,221	2,873,043
Net assets		
Invested in capital assets, net of related debt	(231,072)	(252,409)
Restricted for debt service	293,830	308,443
Unrestricted	192,785	233,406
Total net assets	\$ 255,543	\$ 289,440

Figure A-4
Changes in Pansophia Academy's Net Assets

	2008	2007
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 226,197	\$ 245,716
Charges for services	10,054	21,917
General revenues:		
State aid - unrestricted	1,332,033	1,452,092
Investment	29,201	30,968
Other	14,437	3,594
Total revenues	<u>1,611,922</u>	<u>1,754,287</u>
Expenses:		
Instruction	834,745	870,938
Support services	447,281	494,735
Other	90,506	92,104
Interest	205,371	217,872
Unallocated depreciation	67,917	67,136
Total expenses	<u>1,645,820</u>	<u>1,742,785</u>
Change in net assets	<u>\$ (33,898)</u>	<u>\$ 11,502</u>

Financial analysis of the academy's funds

The stable financial performance of the academy as a whole is reflected in its governmental fund as well. As the academy completed the year, its governmental funds (general) reported a fund balance of \$184,035.

General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes made in the second and fourth quarters to account for student enrollment counts, and changes in assumptions (e.g. staffing, benefits and maintenance and operation costs) since the original budget was adopted.

While the academy's final budget for the general fund anticipated revenues would exceed expenditures by \$(11,475), the actual results for the year showed revenues over expenditures of \$(54,494).

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2008, the academy had invested \$2,473,928 in capital assets consisting primarily of buildings, computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$67,917.

The Academy's capital assets are as follows:

Figure A-5				
Pansophia Academy's Capital Assets				
	Cost	Accumulated Depreciation	2008 Net Book Value	2007 Net Book Value
Land	\$ 203,500	\$ -	\$ 203,500	\$ 203,500
Buildings	2,605,582	424,362	2,181,220	2,233,358
Computer	146,415	140,656	5,759	6,959
Equipment	92,640	67,211	25,429	30,763
Furniture and fixtures	80,605	40,459	40,146	44,961
Vehicles	32,946	15,072	17,874	3,050
Total	<u>\$ 3,161,688</u>	<u>\$ 687,760</u>	<u>\$ 2,473,928</u>	<u>\$ 2,522,591</u>

Long Term Debt

The Academy has certificates of participation to fund the buildings. Additional information is available in Note 7 of the attached financial statements.

As of June 30, 2008 - \$2,705,000

Factors bearing on the academy's future

At the time these financial statements were prepared and audited, the academy was not aware of any existing circumstances that could significantly affect its financial health in the future.

Contacting the academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 2525 West Jefferson, Trenton, MI 48183.

Pansophia Academy
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 323,250
Receivables:	
Due from other governmental units	278,576
Capital assets less accumulated depreciation of \$687,760	<u>2,473,928</u>
Total assets	<u>3,075,764</u>
Liabilities:	
Accounts payable	92,227
Accrued interest	15,794
Other liabilities	7,200
Long-term liabilities:	
Bonds payable, due within one year	75,000
Bonds payable, due in more than one year	<u>2,630,000</u>
Total liabilities	<u>2,820,221</u>
Net Assets:	
Investment in capital assets - net of related debt	(231,072)
Restricted for debt service	293,830
Unrestricted	<u>192,785</u>
Total net assets	<u>\$ 255,543</u>

See Notes to Financial Statements.

Pansophia Academy
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
Primary Government		<u>Services</u>	<u>Grants/</u>	<u>Net (Expenses)</u>
Governmental activities:			<u>Contributions</u>	<u>Revenues and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Instruction	\$ 834,745	\$ -	\$ 163,844	\$ (670,901)
Support services	447,281	-	-	(447,281)
Food service activities	69,281	10,054	62,363	3,126
Athletic activities	6,375	-	-	(6,375)
Community services	14,850	-	-	(14,850)
Interest on long-term debt	205,371	-	-	(205,371)
Depreciation (unallocated)	67,317	-	-	(67,917)
Total governmental activities	\$ 1,645,820	\$ 10,054	\$ 226,197	(1,409,569)
General revenues:				
Taxes:				
State aid not restricted to specific purposes				1,332,033
Interest and investment earnings				29,201
Other				14,437
Total general revenues				1,375,671
Change in Net Assets				(33,898)
Net Assets - Beginning of Year				289,441
Net Assets - End of Year				\$ 255,543

See Notes to Financial Statements.

Pansophia Academy
Balance Sheet
Governmental Funds
June 30, 2008

	Other Nonmajor Governmental			
	<u>General</u>	<u>Debt Fund</u>	<u>Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash and short-term investments	\$ 13,636	\$ 309,624	\$ -	\$ 323,260
Due from other governmental units	278,575	-	-	278,576
Due from other funds	-	-	8,750	8,750
Total assets	<u>\$ 292,212</u>	<u>\$ 309,624</u>	<u>\$ 8,750</u>	<u>\$ 610,586</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 92,227	\$ -	\$ -	92,227
Due to other funds	8,750	-	-	8,750
Deferred revenue	7,200	-	-	7,200
Total liabilities	<u>108,177</u>	<u>-</u>	<u>-</u>	<u>108,177</u>
Fund Balances:				
Reserved for debt service	-	309,624	-	309,624
Reserved for construction	-	-	-	-
Unreserved; undesignated	184,035	-	8,750	192,785
Total fund balances	<u>184,035</u>	<u>309,624</u>	<u>8,750</u>	<u>502,409</u>
Total liabilities and fund balances	<u>\$ 292,212</u>	<u>\$ 309,624</u>	<u>\$ 8,750</u>	<u>\$ 610,586</u>

See Notes to Financial Statements.

Pansophia Academy
Reconciliation of the Fund Balance on the Balance Sheet of Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
Governmental Funds
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 502,409
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	\$ 3,151,688
Accumulated depreciation is	<u>(687,760)</u>
	2,473,928
Long-term liabilities not due and payable in the current period are not reported in the funds:	
Long-term obligations	(2,705,000)
Accrued interest payable is not included as a liability in governmental activities.	
	<u>(15,794)</u>
Total Net Assets - Governmental Activities	\$ <u>255,543</u>

See Notes to Financial Statements.

Pansophia Academy
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General	Debt Fund	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources	\$ 31,415	\$ 12,136	\$ 10,141	\$ 53,692
State sources	1,495,977	-	1,978	1,497,855
Federal sources	-	-	60,375	60,375
Total revenues	<u>1,527,292</u>	<u>12,136</u>	<u>72,494</u>	<u>1,611,922</u>
Expenditures:				
Instruction	834,745	-	-	834,745
Support services	466,535	-	-	466,535
Athletic activities	-	-	6,375	6,375
Food service activities	-	-	69,281	69,281
Community services	14,850	-	-	14,850
Debt service:				
Principal payments	-	70,000	-	70,000
Interest and fiscal charges	-	203,160	-	203,160
Total expenditures	<u>1,316,130</u>	<u>273,160</u>	<u>75,656</u>	<u>1,654,946</u>
Revenues Over (Under) Expenditures	<u>211,162</u>	<u>(261,024)</u>	<u>(3,162)</u>	<u>(53,024)</u>
Other Financing Sources (Uses):				
Operating transfers in	-	262,203	6,375	268,578
Operating transfers out	<u>(265,656)</u>	-	<u>(2,922)</u>	<u>268,578</u>
Total other financing sources (uses)	<u>(265,656)</u>	<u>262,203</u>	<u>3,453</u>	-
Net Changes in Fund Balances	<u>(54,494)</u>	<u>1,179</u>	<u>291</u>	<u>(53,024)</u>
Fund Balances - Beginning of Year	<u>238,529</u>	<u>308,445</u>	<u>8,459</u>	<u>555,433</u>
Fund Balances - End of Year	<u>\$ 184,035</u>	<u>\$ 309,624</u>	<u>\$ 8,750</u>	<u>\$ 502,409</u>

See Notes to Financial Statements.

Pansophia Academy
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds **\$ (53,024)**

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$	(67,917)	
Capital outlay		<u>19,254</u>	
			(48,663)

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.			(2,211)
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Bond proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the Statement of Net
Assets, however, issuing debt increases long-term liabilities and does not
affect the Statement of Activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the liability in the
Statement of Net Assets.

Repayments:

Bond holders		<u>70,000</u>	
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Change in Net Assets of Governmental Activities		<u>\$ (33,898)</u>	
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Pansophia Academy
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

		<u>Agency Fund - Student Activities</u>
<u>Assets</u>		
Cash and investments		\$ 7,257
Total assets		<u>\$ 7,257</u>
<u>Liabilities</u>		
Due to student groups		\$ 7,257
Total liabilities		<u>\$ 7,257</u>

See Notes to Financial Statements.

Pansophia Academy
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the Pansophia Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

Reporting Entity

The Academy was established under the provisions of the State of Michigan as a Public School Academy. Public School Academies are formed pursuant to the Michigan School Code of 1976 as amended by Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy has contracted with Central Michigan University's Board of Trustees to charter a Public School Academy. The Academy operates under an appointed Board of Directors and provides education needs for grades K – 12.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate, component units of the Academy. Based on the application of the criteria, the Academy does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Pansophia Academy
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures for claims and judgments, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Academy reports the following major governmental funds:

General Fund – The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund accounts for the activities involved with servicing general long-term debt.

Additionally, the government reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the Academy are the Athletics Fund and the Food Services Fund.

Capital Projects Funds – Capital Project Funds are used to account for major capital used to record note proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and major remodeling and repairs. Currently, the Academy maintains a capital projects fund which holds funds for future projects; none were in progress during the current year.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the Academy in a trustee capacity or as an agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The Academy presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Pansophia Academy
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Trade receivables are shown net of an allowance for uncollectible amounts. The Academy has determined the uncollectible amounts are immaterial and no provision has been recorded.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Pansophia Academy
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	40 years
Computers	5 – 10 years
Equipment	5 – 20 years
Furniture & fixtures	10 – 20 years
Vehicles	8 – 10 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The contracted management company (See Note 10) submits to the School Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain public comments.

Pansophia Academy
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplementary information section.
4. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The Academy does not consider these amendments to be significant.

Note 3 – Deposits and Investments

At year-end, the Academy's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash	\$ <u>323,260</u>	\$ <u>7,257</u>	\$ <u>330,517</u>

The breakdown for deposits for the School Academy is as follows:

Deposits (checking, savings and U.S. Treasury accounts)	\$ <u>330,517</u>
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Investment and Deposit Risk

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The Academy's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The Academy's investment policy does not have specific limits in excess of State law on investment credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. \$216,881 of the Academy's bank balance of \$336,311 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Pansophia Academy
Notes to Financial Statements

Note 4 – Receivables

Receivables at June 30, 2008, consist of the following:

Other governmental units (primarily Michigan Department of Education)	\$ 256,419
Federal grants	<u>22,157</u>
Net total receivable	<u>\$ 278,576</u>

Note 5 – Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated – land	\$ <u>203,500</u>	\$ _____ -	\$ _____ -	\$ <u>203,500</u>
Capital assets being depreciated:				
Buildings & improvements	2,605,582	-	-	2,605,582
Computers	146,415	-	-	146,415
Equipment	89,886	2,754	-	92,640
Furniture & fixtures	80,605	-	-	80,605
Vehicles	<u>16,446</u>	<u>16,500</u>	_____ -	<u>32,946</u>
Subtotal	<u>2,938,934</u>	<u>19,254</u>	_____ -	<u>2,958,188</u>
Accumulated depreciation:				
Buildings & improvements	372,224	52,138	-	424,362
Computers	139,456	1,200	-	140,656
Equipment	59,123	8,088	-	67,211
Furniture & fixtures	35,644	4,815	-	40,459
Vehicles	<u>13,396</u>	<u>1,676</u>	_____ -	<u>15,072</u>
Subtotal	<u>619,843</u>	<u>67,917</u>	_____ -	<u>687,760</u>
Net capital assets being depreciated	<u>2,319,091</u>	<u>(48,663)</u>	_____ -	<u>2,270,428</u>
Net capital assets	<u>\$ 2,522,591</u>	<u>\$ (48,663)</u>	<u>\$ _____ -</u>	<u>\$ 2,473,928</u>

Depreciation expense was charged to activities of the Academy as follows:

Governmental Activities:

Unallocated	\$ 67,917
Support services	<u>-</u>
	<u>\$ 67,917</u>

Pansophia Academy
Notes to Financial Statements

Note 6 – Note Payable

During the year, the District issued a State Aid anticipation note in the amount of \$850,000. This note was paid off during the 2007-2008 school year.

<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2008</u>
\$ <u> 0</u>	\$ <u>850,000</u>	\$ <u>850,000</u>	\$ <u> 0</u>

For the 2008-2009 school year, the Academy issued a State Anticipation note in the amount of \$450,000 at a 4.4% interest rate with a maturity date of June 30, 2009.

Note 7 – Long-Term Debt

Long-term obligation activity can be summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities					
Certificates of Participation	\$ <u>2,775,000</u>	\$ <u> 0</u>	\$ <u>70,000</u>	\$ <u>2,705,000</u>	\$ <u>75,000</u>
Total governmental activities	\$ <u>2,775,000</u>	\$ <u> 0</u>	\$ <u>70,000</u>	\$ <u>2,705,000</u>	\$ <u>75,000</u>

Annual debt service requirements to maturity on the above certificates of participation are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 75,000	\$ 189,525	\$ 264,525
2010	75,000	184,588	259,588
2011	85,000	179,650	264,650
2012	90,000	174,050	264,050
2013	95,000	167,825	262,825
2014 -2018	580,000	732,200	1,312,200
2019 -2023	770,000	476,642	1,256,642
2024 -2028	750,000	229,250	979,250
2029	<u>185,000</u>	<u>12,950</u>	<u>197,950</u>
Total	\$ <u>2,705,000</u>	\$ <u>2,356,680</u>	\$ <u>5,061,680</u>

Pansophia Academy
Notes to Financial Statements

Note 7 – Long-Term Debt (Continued)

The following is a summary of long-term debt for the year ended June 30, 2008:

Certificates of participation due in semi-annual installments of \$25,000 to \$125,000 through June 1, 2021 plus interest from 6.75% to 7.75%	\$ 570,000
Certificates of participation due in semi-annual installments of \$50,000 to \$185,000 through June 1, 2029 plus interest from 5.4% to 7%	<u>2,135,000</u>
Total general long-term debt	<u>\$ 2,705,000</u>

Note 8 –Interfund Transfers

During the current fiscal year, the General Fund transferred \$6,375 to the Athletics Fund to help subsidize the athletic activities and \$259,281 to the Debt Fund to fund the annual debt of the Academy for the year. The Capital Projects Fund transferred \$2,922 to the Debt Fund to close out the Capital Projects Fund and to help fund the annual debt of the Academy.

Note 9 –Purchased Services

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

Note 10 – Management Company

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement extended through June 30, 2010. The management company's fees are calculated based upon student count (minimum 100) plus increases of the average cost of living rate in the Detroit, Michigan area. During the year ended June 30, 2008, the Academy incurred expense of \$67,500 for these management fees.

Note 11 – Oversight Fees

The Academy pays an administrative oversight fee of 3% of its State School Aid Discretionary and Proposal A obligation payments to Central Michigan University, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2008, the Academy incurred an expense of \$39,960 for oversight fees.

Note 12 – Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors, and omissions. The Academy has purchased commercial insurance for general liability and property/casualty claims.

Required Supplemental Information

Pansophia Academy
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
General Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Revenues:			
Local sources	\$ 28,000	\$ 28,300	\$ 31,415
State sources	1,510,254	1,525,829	1,495,877
Federal sources	106,950	-	-
Interdistrict and other	20,960	-	-
Total revenues	<u>1,665,174</u>	<u>1,554,129</u>	<u>1,527,292</u>
Expenditures:			
Instruction:			
Basic programs	682,170	676,789	648,639
Added needs	204,413	216,058	186,105
Support services:			
Pupil services	-	-	-
Instructional staff services	-	-	-
General administrative services	144,162	133,018	130,716
School administrative services	138,930	138,237	136,049
Business services	82,500	75,500	73,225
Operations and maintenance	123,191	104,450	95,386
Pupil transportation	10,000	33,183	30,159
Central support services	-	-	-
Community services	18,236	16,359	14,850
Other transactions	-	-	-
Total expenditures	<u>1,403,602</u>	<u>1,393,604</u>	<u>1,316,130</u>
Revenues Over (Under) Expenditures	<u>262,572</u>	<u>160,525</u>	<u>211,162</u>
Other Financing Sources (Uses):			
Transfers out	<u>(270,550)</u>	<u>(272,000)</u>	<u>(265,655)</u>
Net Changes in Fund Balances	<u>(8,078)</u>	<u>(111,475)</u>	<u>(54,494)</u>
Fund Balances - Beginning of Year	<u>238,529</u>	<u>238,529</u>	<u>238,529</u>
Fund Balances - End of Year	<u>\$ 230,451</u>	<u>\$ 127,054</u>	<u>\$ 184,035</u>

See Notes to Financial Statements

Other Supplemental Information

Pansophia Academy
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>Special Revenue</u>		<u>Capital</u>	
	<u>Food Service</u>	<u>Athletics</u>	<u>Projects</u>	<u>Total</u>
Due from other funds	\$ 8,750	-	-	\$ 8,750
Total assets	<u>\$ 8,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,750</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Fund Balances:				
t/r reserved: undesignated	8,750	-	-	8,750
Total fund balances	<u>8,750</u>	<u>-</u>	<u>-</u>	<u>8,750</u>
Total liabilities and fund balances	<u>\$ 8,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,750</u>

See Notes to Financial Statements

Pansophia Academy
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

	<u>Special Revenue</u>		<u>Capital</u>		
	<u>Food Service</u>	<u>Athletics</u>	<u>Projects</u>	<u>Total</u>	
Revenues:					
Local sources	\$ 10,054	\$ -	\$ 87	\$	10,141
State sources	1,978	-	-	-	1,978
Federal sources	60,375	-	-	-	60,375
Total revenues	<u>72,407</u>	<u>-</u>	<u>87</u>	<u>-</u>	<u>72,494</u>
Expenditures:					
Athletic activities	-	6,375	-	-	6,375
Food service activities	69,281	-	-	-	69,281
Total expenditures	<u>69,281</u>	<u>6,375</u>	<u>-</u>	<u>-</u>	<u>75,656</u>
Revenues Over (Under) Expenditures	<u>3,126</u>	<u>(6,375)</u>	<u>87</u>	<u>-</u>	<u>(3,162)</u>
Other Financing Sources (Uses)					
Operating transfers in	-	6,375	-	-	6,375
Operating transfers out	-	-	(2,922)	(2,922)	(2,922)
Total other financing sources (uses)	<u>-</u>	<u>6,375</u>	<u>(2,922)</u>	<u>-</u>	<u>3,453</u>
Net Changes in Fund Balances	3,126	-	(2,835)	291	
Fund Balances - Beginning of Year	5,624	-	2,835	-	8,459
Fund Balances - End of Year	<u>\$ 8,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,750</u>

See Notes to Financial Statements

Pansophia Academy
Schedule of Certificates of Participation
June 30, 2008

Series 1999	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year		Bonds Outstanding June 30, 2008
				Interest Requirements	Principal Requirements	
	\$ 2,405,000	6.850%	06/01/09	\$ 146,150	\$ 50,000	\$ 50,000
		6.850%	06/01/10	142,900	50,000	50,000
		6.850%	06/01/11	139,650	55,000	55,000
		6.870%	06/01/12	16,075	60,000	60,000
		6.900%	06/01/13	132,175	65,000	65,000
		6.900%	06/01/14	127,950	65,000	65,000
		6.950%	06/01/15	123,725	70,000	70,000
		7.000%	06/01/16	119,175	75,000	75,000
		7.000%	06/01/17	14,300	80,000	80,000
		7.000%	06/01/18	109,100	90,000	90,000
		7.000%	06/01/19	103,250	95,000	95,000
		7.000%	06/01/20	96,600	100,000	100,000
		7.000%	06/01/21	89,600	105,000	105,000
		7.000%	06/01/22	82,250	115,000	115,000
		7.000%	06/01/23	74,200	125,000	125,000
		7.000%	06/01/24	65,450	130,000	130,000
		7.000%	06/01/25	56,350	140,000	140,000
		7.000%	06/01/26	46,550	150,000	150,000
		7.000%	06/01/27	36,050	160,000	160,000
		7.000%	06/01/28	24,850	170,000	170,000
		7.000%	06/01/29	12,950	185,000	185,000
						<u>\$ 2,135,000</u>

Pansophia Academy
Schedule of Certificates of Participation (Continued)
June 30, 2008

Series 2001	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year		Bonds Outstanding June 30, 2008
				Interest Requirements	Principal Requirements	
	\$ 685,000	6.750%	06/01/09	\$ 43,375	\$ 25,000	\$ 25,000
		6.750%	06/01/10	41,888	25,000	25,000
		6.750%	06/01/11	40,000	30,000	30,000
		7.750%	06/01/12	37,975	30,000	30,000
		7.750%	06/01/13	35,650	30,000	30,000
		7.750%	06/01/14	33,325	35,000	35,000
		7.750%	06/01/15	30,613	35,000	35,000
		7.700%	06/01/16	27,900	40,000	40,000
		7.750%	06/01/17	24,800	45,000	45,000
		7.750%	06/01/18	21,313	45,000	45,000
		7.750%	06/01/19	17,825	50,000	50,000
		7.750%	06/01/20	13,950	55,000	55,000
		7.750%	06/01/21	8,968	125,000	125,000
						\$ 570,000



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards**

Board of Directors
Pansophia Academy
Coldwater, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pansophia Academy as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pansophia Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control over financial reporting. We consider the deficiency described as 2008-1 in the accompanying Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting.

Board of Directors
Pansophia Academy
Coldwater, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pansophia Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we have reported to management of Pansophia Academy in a separate letter dated October 17, 2008.

Pansophia Academy's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 17, 2008



Board of Directors
Pansophia Academy
Coldwater, Michigan

Schedule of Findings and Responses

Finding 2008-1

Currently, the Academy's management company prepares the interim internal financial statements that allows for management and oversight of the Academy, but the Academy relies on assistance from us in preparing the year-end financial statements and footnotes. The annual financial statements for the year ended June 30, 2008, required no audit adjustments. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the year-end financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standard #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



October 17, 2008

To the Board of Directors
Pansophia Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pansophia Academy for the year ended June 30, 2008, and have issued our report thereon dated October 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our preliminary audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pansophia Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates identified.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

WILLIS & JURASEK, P.C.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Pansophia Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

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